

**REPORT OF THE AUDIT OF THE
BREATHITT COUNTY
SHERIFF**

**For The Year Ended
December 31, 2009**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE BREATHITT COUNTY SHERIFF

**For The Year Ended
December 31, 2009**

The Auditor of Public Accounts has completed the Breathitt County Sheriff's audit for the year ended December 31, 2009. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees decreased by \$109,454 from the prior year, resulting in excess fees of \$13,740 as of December 31, 2009. Revenues decreased by \$95,857 from the prior year and expenditures increased by \$13,597.

Report Comments:

2009-01	The Sheriff Had \$4,375 In Disallowed Expenditures In His 2009 Fee Account
2009-02	The Sheriff Should Not Comingle Private And Public Funds And The Tax Account Should Not Loan The Fee Account Funds
2009-03	The Sheriff Was Overpaid In The Amount Of \$1,344 For Calendar Year 2009
2009-04	The Breathitt County Sheriff Should Issue Form 1099 As Required
2009-05	The Sheriff Has Questionable Costs Relating To Inmate Meals
2009-06	The Breathitt County Should Report Taxable Cell Phone Usage On W-2's
2009-07	The Sheriff Should Make Deposits On A Daily Basis
2009-08	The Sheriff Did Not Properly Handle Retirement For All Eligible Employees
2009-09	The Sheriff Should Maintain Adequate Oversight On Fuel Purchases
2009-10	The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Harvey Jason Richardson, Breathitt County Judge/Executive
The Honorable Ray Clemons, Breathitt County Sheriff
Members of the Breathitt County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Breathitt County, Kentucky, for the year ended December 31, 2009. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2009, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated January 5, 2011 on our consideration of the Breathitt County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Harvey Jason Richardson, Breathitt County Judge/Executive
The Honorable Ray Clemons, Breathitt County Sheriff
Members of the Breathitt County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2009-01 The Sheriff Had \$4,375 In Disallowed Expenditures In His 2009 Fee Account
- 2009-02 The Sheriff Should Not Comingle Private And Public Funds And The Tax Account Should Not Loan The Fee Account Funds
- 2009-03 The Sheriff Was Overpaid In The Amount Of \$1,344 For Calendar Year 2009
- 2009-04 The Breathitt County Sheriff Should Issue Form 1099 As Required
- 2009-05 The Sheriff Has Questionable Costs Relating To Inmate Meals
- 2009-06 The Breathitt County Should Report Taxable Cell Phone Usage On W-2's
- 2009-07 The Sheriff Should Make Deposits On A Daily Basis
- 2009-08 The Sheriff Did Not Properly Handle Retirement For All Eligible Employees
- 2009-09 The Sheriff Should Maintain Adequate Oversight On Fuel Purchases
- 2009-10 The Sheriff's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Breathitt County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

January 5, 2011

BREATHITT COUNTY
 RAY CLEMONS, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2009

Revenues

State - Kentucky Law Enforcement Foundation Program Fund	\$	4,059
State Fees For Services:		
Finance and Administration Cabinet	\$	22,683
Sheriff Security Service	<u>49,706</u>	72,389
Fiscal Court		180,409
County Clerk - Delinquent Taxes		20,491
Commission On Taxes Collected		146,079
Other Fees On Taxes Collected		20,957
Fees Collected For Services:		
Auto Inspections	775	
Serving Papers	30,722	
Carrying Concealed Deadly Weapon Permits	<u>2,080</u>	33,577
Other:		
Miscellaneous		2,673
Payment Received From Surety Bond		5,304
Interest Earned		<u>486</u>
Total Revenues		486,424

The accompanying notes are an integral part of this financial statement.

BREATHITT COUNTY
 RAY CLEMONS, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2009
 (Continued)

Expenditures

Operating Expenditures:

Personnel Services-

Deputies' Salaries	\$	30,686	
Other Salaries		67,875	
Court Security Gross Salaries		59,170	\$ 157,731

Employee Benefits-

Employer's Share Social Security	16,585	
Employer's Share Retirement	17,129	
Employer's Share Hazardous Duty Retirement	29,723	
Employer Paid Health Insurance	16,600	
Health Insurance Admin Fee	252	
Life Insurance	56	
Workers Compensation	6,032	86,377

Contracted Services-

Advertising	1,476	
Vehicle Maintenance and Repairs	17,096	
Transport	1,376	19,948

Materials and Supplies-

Office Materials and Supplies	5,811	
Uniforms	10,554	16,365

Auto Expense-

Gasoline	33,788	
Vehicle Insurance	7,447	41,235

Other Charges-

Telephones	7,674	
Postage	52	
Deputy Training	345	
Law Enforce & Unemploy Ins	31,153	
Carrying Concealed Deadly Weapon Permits	40	
Computer Expense	4,594	
Bond/ Miscellaneous	20,619	
Tax and Fee Audits	18,602	83,079

Total Expenditures		404,735
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The accompanying notes are an integral part of this financial statement.

BREATHITT COUNTY
RAY CLEMONS, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2009
(Continued)

Less: Disallowed Expenditures	<u>\$ 4,375</u>
Total Allowable Expenditures	<u>400,360</u>
Net Revenues	86,064
Less: Statutory Maximum	<u>72,324</u>
Excess Fees Due County for 2009	13,740
Payments to Fiscal Court - March 24, 2010	<u>8,021</u>
Balance Due Fiscal Court at Completion of Audit	<u><u>\$ 5,719</u></u>

The accompanying notes are an integral part of this financial statement.

BREATHITT COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2009

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2009 services
- Reimbursements for 2009 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2009

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

BREATHITT COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2009
(Continued)

Note 2. Employee Retirement System

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.50 percent for the first six months and 16.16 percent for the last six months.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 29.50 percent for the first six months and 32.97 percent for the last six months.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Breathitt County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1) (d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

BREATHITT COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2009
(Continued)

Note 3. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Breathitt County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Asset Forfeiture Account

The Breathitt County Sheriff's office received forfeiture proceeds from a court order and established an Asset Forfeiture Account. These funds are to be used for law enforcement expenses. The beginning balance in the Asset Forfeiture Account was \$0. The Sheriff received \$524 and expended \$277. As of December 31, 2009 was \$247.

Note 5. Body Armor Grant Account

The Breathitt County Sheriff's office received an award under the Kentucky Body Armor Program. The funds received are to be used to purchase bulletproof vests for the Sheriff's Department. The beginning balance in the Body Armor Grant Account totaled \$698; interest receipts totaled \$41 and expenditures totaling \$739. The Body Armor Grant Account leaving a balance of \$0.

Note 6. State Grant - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)

The Breathitt County Sheriff's Office was awarded a grant under the Kentucky Law Enforcement Foundation Program Fund (KLEFPF) from the Commonwealth of Kentucky Department of Criminal Justice Training. Under the program, an eligible officer is entitled to receive up to \$3,100 annually as provided in KRS 15.460. During calendar year 2008, the Jackson County Sheriff's Office received \$4,059. All funds received were expended for the intended purpose.

Note 7. Related Party Transaction

The Sheriff's office purchases meals for state inmates at the Cozy Corner. The owner of this restaurant also works as a court security officer for the Sheriff's office.

Note 8. Subsequent Events

During calendar year 2010, it was discovered that \$1,400 in checks made payable to the Breathitt County Sheriff's Office were not deposited into the Sheriff's official fee account. These checks were cashed by an employee of the Sheriff's office. This matter will be referred to the Attorney General's Office for further investigation.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Harvey Jason Richardson, Breathitt County Judge/Executive
The Honorable Ray Clemons, Breathitt County Sheriff
Members of the Breathitt County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Breathitt County Sheriff for the year ended December 31, 2009, and have issued our report thereon dated January 5, 2011. The County Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Breathitt County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comments and recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying comments and recommendations as items 2009-09 and 2009-10 to be material weaknesses.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Breathitt County Sheriff's financial statement for the year ended December 31, 2009, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations as items 2009-01, 2009-02, 2009-03, 2009-04, 2009-05, 2009-06, 2009-07 and 2009-08.

The Breathitt County Sheriff's responses to the findings identified in our audit are described in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Breathitt County Fiscal Court, and the Department of Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', written in a cursive style.

Crit Luallen
Auditor of Public Accounts

January 5, 2011

COMMENTS AND RECOMMENDATIONS

BREATHITT COUNTY
RAY CLEMONS, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2009

STATE LAWS AND REGULATIONS:

2009-01 The Sheriff Had \$4,375 In Disallowed Expenditures In His 2009 Fee Account

During our audit, we noted that the Sheriff had \$4,375 of disallowed expenditures in his 2009 fee account. Per Funk v. Milliken, 317S.W.2d 499 (KY1958) expenditures of the Sheriff's fee account should be necessary for the operation of the Sheriff's office, reasonable in amount, beneficial to the public, adequately documented, and not personal in nature. The Sheriff wrote a check in the amount of \$4,375 to a county employee's mother for damage that her car sustained during an accident involving a sheriff's volunteer deputy. The volunteer deputy was chasing a vehicle driven by an individual suspected of a crime when the suspect ran into a car. Since the suspect did not have personal vehicle insurance, the Sheriff paid the owner the NADA book value of the totaled vehicle. This was not a necessary expense in the operation of the Sheriff's office and will be disallowed. We recommend the Sheriff monitor his expenditures to assure that all expenditures are allowable. We also recommend the Sheriff deposit personal funds of \$4,375 into the 2009 fee account to repay for the disallowed expenditures.

Sheriff's Response: This vehicle was being driven by the County Judge's fiancée, which was not covered by insurance. The Judge told the bookkeeper to write a check for the loss & the Fiscal Court would reimburse the Sheriff's Dept. To this date, it is still pending.

2009-02 The Sheriff Should Not Comingle Private And Public Funds And The Tax Account Should Not Loan The Fee Account Funds

On March 9, 2009, the bookkeeper wrote a check from the 2009 tax account and deposited into the Sheriff's fee account in the amount of \$17,268. Then on March 11, 2009 the bookkeeper then wrote a \$14,000 check from the fee account deposited into the 2009 tax account. On March 13, 2009, the Sheriff's bookkeeper wrote a personal check in the amount of \$3,268 and deposited it into the Sheriff's 2009 tax account. On April 9, 2009, a check was paid to the bookkeeper from the 2009 tax account, to replace the personal funds that were deposited by the bookkeeper in the prior month. Therefore, all funds written from the tax account were repaid. However, the fee account and tax account are their own separate accounts and should stand alone and funds should not be transferred to cover shortages from one account to another. In addition, KRS 64.850 prohibits comingling of public and private funds by a fee official. We recommend that Sheriff refrain from comingling private and public funds and loaning funds between accounts.

Sheriff's Response: The bookkeeper was new at the time of these transactions which were made as requested by the County Judge. This will not happen again.

BREATHITT COUNTY
RAY CLEMONS, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2009
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2009-03 The Sheriff Was Overpaid In The Amount Of \$1,344 For Calendar Year 2009

The Sheriff's salary was not paid in accordance with the salary schedule set by the Department of Local Government. According to the Department of Local Government the Sheriff should have been paid \$72,324. During calendar year 2009, the Sheriff was paid \$73,668. This resulted in an overpayment in the amount of \$1,344. We recommend the Sheriff reimburse the fee account \$1,344 in order to be in compliance with the salary mandated by the Department of Local Government.

Sheriff's Response: This was due to an over estimate. Sheriff has repaid the total amount of \$1,344.00. Payment made January 20, 2011.

2009-04 The Breathitt County Sheriff Should Issue Form 1099 As Required

The Sheriff's office did not issue form 1099 during calendar year 2009 to a vendor. During testing, we found that the Sheriff's office had a special deputy that performed mechanical work on the Sheriff's office vehicles in which he received \$1,051 for his services and was not reported on form 1099. According to the IRS, a form 1099 must be issued by a government agency, to any person paid \$600 or more in rents, services or other income payments. We recommend that the Sheriff's office issue a form 1099 to this special deputy for these services.

Sheriff's Response: A 1099 will be issued for the above services.

2009-05 The Sheriff Has Questionable Costs Relating To Inmate Meals

The Sheriff's office has questionable costs relating to inmate meals. The Sheriff's office purchases meals for state inmates at a local restaurant. The owner of this restaurant also works as a court security officer for the Sheriff's office. At the beginning of the fiscal year a bid was made to the fiscal court to purchase meals for county inmates at a rate of \$5.95; however, the restaurant charged the Sheriff's office \$7.07 for meals for state inmates for a difference of \$1.12. We recommend that the Sheriff pay the same amount that the fiscal court does for meals.

Sheriff's Response: In the future the Sheriff's Dept. will pay the same amount for meals for state inmates that the Fiscal Court pays for meals.

BREATHITT COUNTY
RAY CLEMONS, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2009
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2009-06 The Breathitt County Should Report Taxable Cell Phone Usage On W-2's

The Sheriff's office does not have a policy on cell phone use and does not include the personal fringe benefit on the employees W-2. According to the IRS, to be able to exclude a portion of the use by an employee from taxable income from an employer-owned cell phone, the employer must have some methods to require the employee to keep records that distinguish business from personal phone charges. The amount that represents personal use is included in the wages of the employee. This includes individual personal calls as well as pro rata shares of monthly services charges. In general, this means that unless the employer has a policy requiring employees to keep records, or the employee does not keep records, the full value of the use of the phone will be income to the employee. At a minimum, the employee should keep a record of each call and its business purpose. If calls are itemized on a monthly statement, they should be identifiable as personal or business, and the employee should retain any supporting evidence of the business calls. This information should be submitted to the employer, who must maintain these records to support the exclusion of any or all of the phone use from the employee's wages. We recommend that the Sheriff implement a policy on cell phones and include the taxable portion of the cell phone use on the employees W-2.

Sheriff's Response: The Sheriff's Office is working on a policy regarding the use of cell phones by the employees.

2009-07 The Sheriff Should Make Deposits On A Daily Basis

During testing, the auditor noted the Sheriff does not make deposits on a daily basis. In addition, the Sheriff does not detail the makeup of the deposit on the deposit ticket. KRS 68.210 gives the State Local Finance Officer the authority to establish minimum accounting procedures, which includes depositing receipts intact on a daily basis into a federally insured financial institution. Deposits should be made daily with the detail listed on the deposit ticket to prevent the likelihood of misstatement or fraud occurring without being detected. We recommend that deposits be made on a daily basis and the detail of that deposit be listed on the deposit ticket.

Sheriff's Response: Daily deposits will be attempted in the future. The deposit slip has a back up receipt with the above detail information for each check or cash that is deposited. (Name, Ck. Number, date, what it is for, etc.)

BREATHITT COUNTY
RAY CLEMONS, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2009
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2009-08 The Sheriff Did Not Properly Handle Retirement For All Eligible Employees

During testing, we found that some employees that averaged 100 hours per month did not participate in retirement. An employee who averages one hundred (100) or more hours per month is required to participate in the CERS. CERS allows employees who are on probation to be exempt from participating. We recommend the Sheriff require all employees who average one hundred (100) or more hours per month to participate in the CERS and ensure compliance.

Sheriff's Response: Part time employee hours will be closely monitored Full time employees will participate in the retirement system.

INTERNAL CONTROL – MATERIAL WEAKNESSES:

2009-09 The Sheriff Should Maintain Adequate Oversight Of Fuel Purchases

We noted that the Sheriff did not review or maintain adequate oversight of fuel purchases. The current fuel purchases process involves several methods including (1) employees charging fuel at stations and signing a gas ticket; (2) employees charging fuel and documenting on an incomplete fuel log at the station that is not supported by individual fuel purchases tickets; (3) employees getting reimbursed for fuel purchases; and (4) employees purchasing gas with a fleet card system. With the use of all these methods, maintaining adequate controls over deputies' fuel purchases and determining if all expenditures are allowable is extremely difficult. By not reviewing or maintaining proper oversight of these purchases, the Sheriff did not ensure the accuracy or reasonableness of amounts billed and charged by the deputies. We recommend the Sheriff implement steps to adequately safeguard against the potential for fraudulent gasoline purchases. A fuel log should be required for all deputies. Fuel logs should contain a vehicle identification number on all transactions, odometer reading, gallons purchased, and officer identification. These logs should be compared to invoices on a monthly basis. Upon completion of the comparisons, discrepancies should be investigated. The Sheriff should also ensure fuel purchases are for official vehicles only. When official travel is done using personal vehicle, requests for mileage reimbursement should include specific date, time, and purpose of travel. Since the Sheriff's office has already established a fleet card system, we recommend that system be fully implemented for all fuel purchases. Each employee should be assigned a fleet card and be fully accountable for all fuel purchased on the card.

Sheriff's Response: Sheriff will monitor fuel purchases closer in the future.

BREATHITT COUNTY
RAY CLEMONS, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2009
(Continued)

INTERNAL CONTROL – MATERIAL WEAKNESSES: (Continued)

2009-10 The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office lacks adequate segregation of duties due to the responsibilities of recording, depositing, and reconciling cash being delegated to the same individual. The functions of receiving, recording, depositing, and reconciling cash should be separated whenever possible in order to decrease the risk that errors, misstatements, and/or fraud will occur and go undetected. Since only one person performs most of these functions, there is no assurance that financial transactions are accurate, complete, and free of error/misstatement. We recommend the Sheriff segregate the duties of recording, depositing, and reconciling cash or implement and document compensating controls to offset this control deficiency. Examples of compensating controls include: the Sheriff comparing daily checkout sheet to receipts ledger and bank deposit, reviewing bank reconciliations for accuracy, performing surprise cash counts, reviewing invoices prior to payment, and reviewing all financial reports. The Sheriff could document his review process by initialing reports and supporting documentation.

Sheriff's Response: Continue to be problem due to unavailable funds to hire additional staff.

Auditor's Reply: The above compensating controls recommend the sheriff or existing staff complete and do not require hiring additional personnel.

